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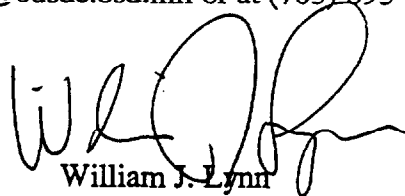
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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Policy for the Recognition of DoD General Property, Plant and Equipment Assets

This memorandum provides policy guidance regarding which DoD Component is responsible for recognizing (reporting) General Property, Plant and Equipment assets for accounting and financial reporting purposes. This policy will be included in a subsequent revision to the "DoD Financial Management Regulation" (DoD 7000.14-R). However, this policy guidance is being provided in advance of it being formally incorporated into the "DoD Financial Management Regulation," because it furnishes the asset recognition requirements necessary to comply with the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard No. 6, "Accounting for Property, Plant and Equipment," as preparation is made for producing the Department's FY 1998 financial statements.

Questions pertaining to this policy guidance, may be directed to Mr. Stephen Tabone. He may be reached by e-mail: tabones@ousdc.osd.mil or at (703) 693-6520.


William J. Lynn

Attachment

**DEPARTMENT OF DEFENSE
PROPOSED POLICY FOR THE RECOGNITION OF
GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)**

Recognition of General Property, Plant and Equipment (PP&E)

A. General

1. All General PP&E assets acquired by the Department of Defense (DoD) must be recognized for accounting and reporting purposes. Recognition requires the proper accounting treatment (capitalization and depreciation) and the reporting of such capitalized amounts and accumulated depreciation on the appropriate DoD Component's financial statements. The DoD Component that procures a General PP&E asset, or the DoD Component in possession of a General PP&E asset, frequently, but not necessarily, will be the DoD Component that must account for and report the asset. The following guidance shall be used to determine which DoD Component is required to account for and report General PP&E assets.

2. In most instances, a General PP&E asset shall be recognized by the DoD Component acquiring the General PP&E asset.

a. Recognition shall occur when title passes to the acquiring DoD Component or when the asset is delivered to the DoD Component or to an agent of the DoD Component.

b. In the case of a constructed General PP&E asset, the cost to construct the asset shall be recorded as construction-in-progress until it is completed and placed in service; at that time, the balance in the construction-in-progress account shall be transferred to the appropriate General PP&E account.

c. For General PP&E assets acquired by a contractor on behalf of a DoD Component (e.g., the DoD Component will ultimately hold title to the assets), the assets shall be recognized upon delivery or constructive delivery, whether to the contractor for use in performing contract services or to the Department. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.

3. Defense Working Capital Fund (DWCF) activities are required to recognize and depreciate General PP&E assets in accordance with the guidance in this attachment without regard as to whether depreciation amounts for such assets are procured through the DWCF activities' Capital Purchase Program budgets or included in rates charged to customers. All General PP&E depreciation amounts shall be recognized as an expense on DWCF activities' annual Statement of Operations and Changes in Net Position, in accumulated depreciation amounts on the annual Statement of Financial Position, and in the monthly AR 1307 report.

4. To maintain PP&E accountability, when acquiring General PP&E from another DoD Component or federal agency, the acquiring DoD Component shall request, from the losing DoD Component or other federal agency, the necessary source documents to establish the location, size, original acquisition cost, cost of improvements, the date the asset was purchased, constructed, acquired, etc.

B. Treatment When the Predominant User of an Asset Is Not the Title Holder or DoD Component that Financed the Asset. Legal ownership (i.e., having title to a General PP&E asset), usually, but not always, is the determinant factor in the federal sector when determining which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes, to include financial statements. In addition, how a real property asset was financed does not in itself determine what entity accounts for and reports a real property asset. For example, buildings used by a Military Department Working Capital Fund activity, may not be constructed or acquired using Working Capital Funds; however, such buildings generally should be capitalized and depreciated by the Working Capital Fund activity and reported on that Working Capital Fund activity's financial statements. Such accounting and reporting is required by the Military Department Working Capital Fund activity regardless of whether title to such buildings is passed to the local installation when construction is completed. When determining which DoD Component must recognize a General PP&E asset for accounting and reporting purposes, all three of the following criteria must be met by the recognizing DoD Component:

1. The General PP&E asset must embody a probable future benefit that will contribute to the DoD Component's operations. In applying this criterion, the concept of benefit has traditionally been referred to as "service capacity" (i.e., the ability of an asset to directly assist the DoD Component in achieving its mission). Service capacity has value because it is consumable or exchangeable for other benefits. For example, a building on a military installation used by a Defense agency provides space for its operations, allowing it to achieve its mission. The Defense agency also is responsible for assuring that the maximum benefit is always available, since it pays for utilities, maintenance and upkeep of the building. The exchangeability part of the benefit criterion (the ability to sell, trade or donate the property) need not be present for an item to qualify as an asset in the federal sector, if consumption of the item provides benefit to the DoD Component. The inability of the DoD Component to exchange the benefit for other benefits does not preclude the asset from meeting this criteria.

2. The DoD Component that reports the General PP&E asset must be able to obtain the benefit and control access to the benefit inherent in the asset. This criterion, control over the benefit, refers to an entity's ability to direct who derives the benefit, the timing of when the benefit is derived and under what conditions it is derived. Directing the use of the benefit has traditionally been based on (a) possession or (b) the ability to exert significant influence over the benefits; either of which is obtained through legal ownership or an agreement with the owner. In instances in which an entity maintains possession of property through agreements which provide for possession for as long as needed, without a termination date, and without reimbursement, such arrangements are generally considered as providing sufficient influence over the use of the property to satisfy the control criterion. Once termination occurs, however, as in the case of a base closing where an entity conducts operations, control no longer exists; hence, the property will no longer meet the control criterion for the asset.

3. The transaction or event giving a DoD Component the right to and control over the benefit of a General PP&E asset must have already occurred. This criterion is an agreement (express or implied) that allows a DoD Component to occupy/use the asset without reimbursement for as long as needed.

C. Facilities Occupied/Equipment Used by More Than One DoD Component. When more than one DoD Component occupies a Government owned facility or uses government equipment, the following criteria shall be used to determine which occupant/tenant/user should recognize and record the facility/equipment as a General PP&E asset in their property and financial records. The criteria shall be applied in descending order.

1. Occupant/tenant/user that can substantiate preponderant use (via direct labor hours, population, square footage, metered output, etc.).

2. Occupant/tenant/user that has exclusive responsibility for maintenance, repair, upkeep, and replacement of the asset.

D. OCONUS Facilities and Equipment

1. OCONUS facilities that are occupied, and equipment that is used, by DoD Components shall be recognized as General PP&E of the occupying/using DoD Component for accounting and financial reporting purposes, if such occupation/use meets all of the following criteria. If all of the criteria are not met, the asset shall not be recognized by the DoD Component.

a. The facilities are occupied/equipment is used without reimbursement to the host nation,

b. The DoD Component controls access to or use of the facility/equipment,

c. Use of the facility/equipment is for an unspecified length of time, and

d. The DoD Component maintains and repairs the facility/equipment.

2. Such OCONUS facilities/equipment include facilities/equipment that were confiscated during a military operation, facilities built/equipment procured with the funds of an international organization (e.g., NATO), and facilities that were built/equipment procured with the funds of the host country. That such facilities/equipment may be returned to the host nation or international organization when the DoD Component permanently leaves the facility/returns the equipment is not a relevant factor for purposes of accounting and financial statement reporting. Additionally, such facilities/equipment are not to be considered assets under a capital lease, unless a specific agreement with the host nation exists, and the agreement is the equivalent of an installment purchase and meets one of the criteria as specified in paragraph 070308 of Volume 4 of the "DoD Financial Management Regulation" for a capital lease.

3. The value of such OCONUS facilities/equipment shall be footnoted on the DoD Component's financial statements.

E. Recognition Uncertainty

1. It is important that the overall accounting records of the Federal Government are not duplicative and that the DoD Component responsible for an asset maintains accountability for that PP&E. In situations when doubt exists as to which DoD Component should recognize an asset, the DoD Components involved shall reach agreement with the other DoD Component(s) or federal agency as to which entity will recognize the PP&E.

2. If an agreement cannot be reached, the matter shall be referred to the Office of the Deputy Chief Financial Officer, OUSD(C), for resolution. Requests for resolution shall be accompanied by adequate supporting documentation to assist in resolution of the matter and be submitted through the Financial Management and Comptroller of the submitting Military Department or Defense agency.